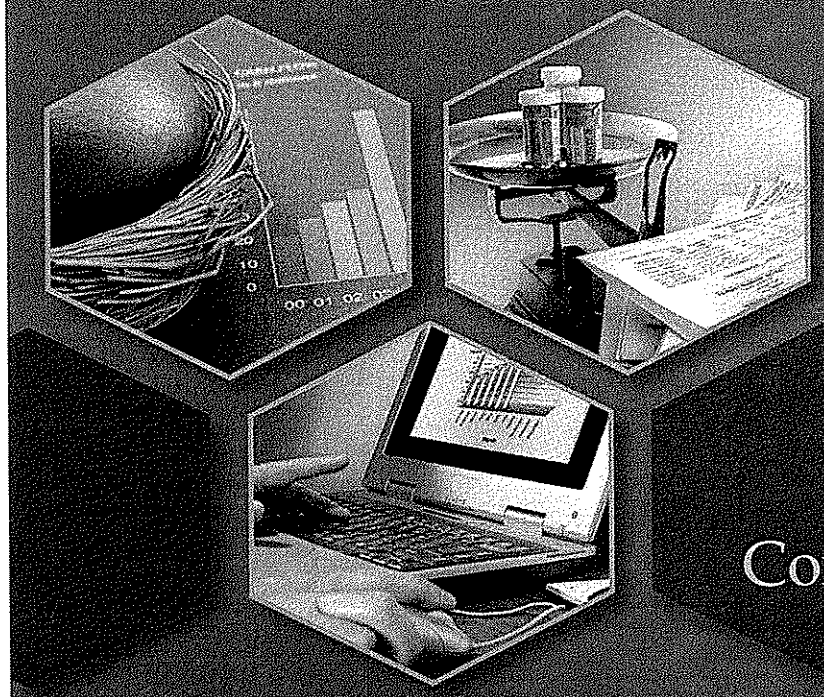

CITY OF SAN JOSE

Contribution Rate Phase In Strategies

Retirement and Retiree Medical Rate Increases
Based on the 2009 valuation results

Leslie Thompson, FSA, FCA, EA, MAAA
Diane Hunt, FSA, EA, MAAA

March 11, 2010

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
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Implementing the Contribution Rate Strategy

- The Federated Retirement plan valuation displays the accounting and the ultimate cost for all assumption changes
- The retiree health valuation also displays the accounting costs and includes all assumption changes; the ultimate cost for the retiree health care valuation is shown in the health care presentation
- The funding policy of the Board is to implement these rate increases (from current contribution rates to the ultimate rates), phased in over a five year period

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Implementing the Contribution Rate Strategy

- The Federated retirement plan will phase in the rate increase as follows:
  - The rate increase due to the demographic assumptions will be incorporated immediately into the rate increase for 2011/2012
  - The rate increase due to the economic assumption changes will be phased in over a five year period.

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Implementing the Contribution Rate Strategy

- The Board has previously adopted a policy for a five year phase in of the retiree medical plan rate increase.
- Originally, the phase in was put into place to bring the "policy" contribution to the level of the GASB-compliant annual required contribution (ARC).
- The phase in will now also include the cost increases related to the change in assumptions

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Implementing the Contribution Rate Strategy

- For the Retiree Medical Plan, the discount rate for accounting purposes has changed from 6.6% to 6.7%; the discount rate for funding purposes changed from 8.25% to 7.75%
- The discount rate is based on the "proportion" of the annual required contribution being made
  - If the plan were not prefunding, then the discount rate would be 4.5%
  - When the plan is funded at the ARC, then the discount rate will be 7.75%
  - Until then, a blended rate is used that reflects the partial funding

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Federated Retirement Plan

- Phasing in from 22.59% to 30.63%
- The final year rate is higher, to "pay" for missed contributions
- From 2010 to 2011, full phase in of all gains and losses, except that 1/5 of the change due to the change in economic assumptions is phased

Fiscal Year	Employee	Employer	Total
2009/2010 (from 2007 valuation)	4.28%	18.31%	22.59%
2010/2011	4.54%	23.18%	27.72%
2011/2012	4.65%	23.96%	28.61%
2012/2013	4.76%	24.70%	29.46%
2013/2014	4.85%	25.41%	30.26%
2014/2015	4.94%	26.09%	31.03%

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Retiree Health Phase-In—Prior Schedule

- Board has adopted a funding policy for retiree health benefits to phase-in change from policy method to full-funded ARC over 5 years
- Following prior phase-in schedule based on June 30, 2007 valuation

Fiscal Year	Employee	Employer	Total
2008/2009 Initial	4.65%	5.25%	9.90%
2009/2010 (1st year phase-in)	5.07%	5.70%	10.77%
2010/2011 (2nd year phase-in)	5.47%	6.14%	11.61%
2011/2012 (3rd year phase-in)	5.86%	6.54%	12.40%
2012/2013 (4th year phase-in)	6.23%	6.93%	13.16%
2013/2014 (5th year phase-in)	6.59%	7.29%	13.88%

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Retiree Health Updated Schedule

- This phase-in is to move from the current "policy" rates to the ARC

Fiscal Year Contribution	Employee	Employer	Total
2008/2009 Initial	4.65%	5.25%	9.90%
2009/2010 (1st year phase-in)	5.07%	5.70%	10.77%
2010/2011 (2nd year phase-in)	5.76%	6.41%	12.17%
2011/2012 (3rd year phase-in)	6.43%	7.09%	13.52%
2012/2013 (4th year phase-in)	7.07%	7.72%	14.79%
2013/2014 (5th year phase-in)	7.67%	8.33%	16.00%

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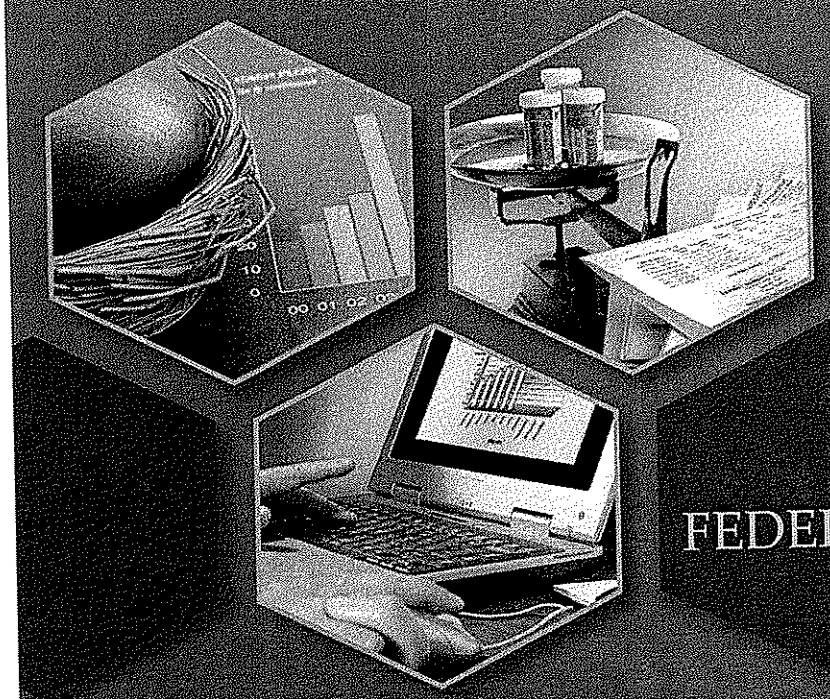

CITY OF SAN JOSE

FEDERATED EMPLOYEES' RETIREMENT PLAN and Funding Policy

Retirement Plan Actuarial Valuation as of June 30, 2009

Leslie Thompson, FSA, FCA, EA, MAAA
Diane Hunt, FSA, EA, MAAA

March 11, 2010

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Agenda

- Federated Retirement Plan 2009 valuation
- Retiree Medical Plan 2009 valuation
- Contribution rate increase phase in strategies

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Retirement Plan Valuation

- Contribution requirements
  - Including new amortization method
- Gains/(losses)
  - Due to assumption changes
  - Due to actual economic and demographic experience
- Phase-in of retirement contribution rate changes
  - Board adopted 100% recognition of demographic assumption changes
  - Board adopted 5-year phase in of economic assumption change

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Retirement Plan Valuation

- Prepared as of June 30, 2009, using member data, financial data, benefit and contribution provisions, actuarial assumptions and methods
- New assumptions recently adopted as a result of the experience study
- New amortization method recently adopted also as a result of the experience study
- Purposes:
  - Measure the actuarial accrued liabilities
  - Determine required contribution rate based on Board Funding Policy
  - Provide other information for reporting
    - GASB #s 25 and 27
    - CAFR
  - Explain changes in actuarial condition of the Plan

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Retirement Plan Highlights

- These results are for the Federated retirement plan. Results of the retiree health valuation are presented separately.
- Assumptions have been changed in accordance with the recommendations in the recent experience study
  - Mortality table changes for pre- and post-retirement members
  - Investment return assumption change from 8.25% to 7.75%
  - Salary scale and payroll assumption changes
- Investment rates of return
  - Actuarial value of assets 2.14% in 2009, 9.35% in 2008
  - Market value of assets (17.79%) in 2009, (3.45%) in 2008

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Retirement Plan Highlights

- Increase in unfunded actuarial accrued liability from $338.1 M to $729.6 M
- Funded status
  - Decrease in funded status from 82.8% to 70.7% on AVA
  - Decrease in funded status from 90.0% to 54.6% on MVA
- Increase in contribution requirement (prior to implementation of the Board's funding policy to phase-in the economic assumption rate increase) from 22.59% to 30.63%
- Board Funding Policy: 5 year phase-in for impact of economic assumption changes; immediate recognition of all other assumption changes

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Retirement Plan Highlights – Contributions

- Investment return losses: 1.63% contribution increase
- Demographic assumption changes: 1.58% contribution increase
- Economic assumption changes: 3.64% contribution increase
- Below does not reflect funding policy to phase-in economic changes over 5 years

	2005	2007	2009			Total Increase '07 to '09
	Contribution Percent	Contribution Percent	June 30 initial results	Demographic Assumption Changes	Demographic & Economic Assumption Changes	
Employer- Ret	18.16%	18.31%	21.13%	22.54%	25.75%	7.43%
Employee-Ret	4.26%	4.28%	4.28%	4.45%	4.88%	0.60%
Total	22.42%	22.59%	25.41%	26.99%	30.63%	8.04%

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Retirement Plan Highlights—Contributions

- Current Service rate split 8 to 3, City and Members
- Current Service Deficiency rate paid 100% by the City
- Prior Service Rate split 58 to 42, City and Members
- Prior Service Deficiency rate paid 100% by the City
- Golden Handshake Rate paid 100% by the City
- Reciprocity Rate paid 100% by the City

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Contribution Rates—Breakdown between Basic and Cost-of-Living Benefits (prior to phase-in calculation)

	Basic Retirement Benefits		Cost-of-Living Retirement Benefits		
	City	Members	City	Members	Total
Current Service	9.82%	3.68%	3.15%	1.19%	17.84%
Current Deficiency	8.00%	N/A	2.85%	N/A	10.85%
Prior Service	0.01%	0.01%	0.01%	0.00%	0.03%
Prior Deficiency	0.90%	N/A	0.00%	N/A	0.90%
Golden Handshake	0.26%	N/A	0.08%	N/A	0.34%
Reciprocity	0.50%	N/A	0.16%	N/A	0.66%
Total	19.49%	3.69%	6.25%	1.19%	30.63%

Total City Contributions–Retirement	25.75%
Total Member Contributions—Retirement	4.88%
Total Contributions—Retirement	30.63%

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What Caused the Rates to Increase?

- Demographic and economic assumption changes
- Investment returns not meeting assumption
- Gains/losses due to experience not matching assumptions

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Demographic Assumption Changes

- For post-retirement mortality, added a set-back of 3 years for males and 1 year for females
- For pre-retirement mortality, set tables equal to post-retirement mortality
- Increased contribution by 1.58%
- Board's funding policy is to recognize impact fully

Post-Retirement Sample Rates –Future Life Expectancy (Years)

	Current		Prior	
Age	Men	Women	Men	Women
50	33.5	35.8	30.7	34.9
55	28.9	31.1	26.2	30.2
60	24.4	26.5	21.8	25.6
65	20.2	22.1	17.8	21.3
70	16.4	18.1	14.3	17.3

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Economic Assumption Changes

- The following shows the current and prior economic assumptions
- Increased contribution by 3.64%
- Funding policy to phase-in over 5 years

	Nominal Rate of Return	Real Rate of Return	Inflation	Payroll Growth	Ultimate Salary Scale
Current	7.75%	4.08%	3.67%	3.83%	4.08%
Prior	8.25%	4.25%	4.00%	4.00%	4.25%

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Actuarial Value of Assets

- All actuarial calculations are based on actuarial value of assets, not market value
- Actuarial value recognizes total return up to the assumed 8.25%
  - The method recognizes 20% of the total return in excess of (or less than the assumption)
  - This is done for each of the last five years
- Return on the actuarial value of assets was 2.14% in FY 2009 and 9.35% in FY 2008 compared to the actuarial assumption of 8.25%
- This resulted in an increase in the contribution rate of 1.63%

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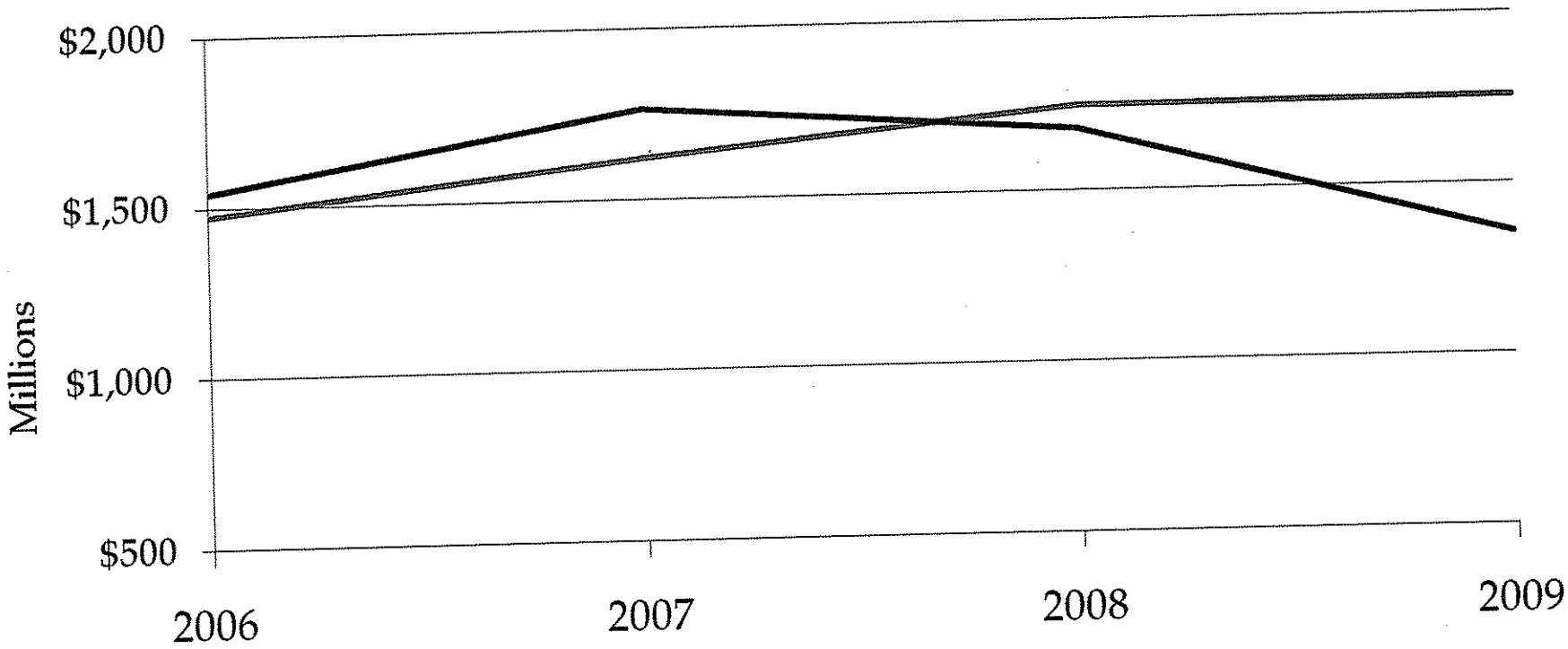
Assets--Actuarial Value compared to Market Value



- AVA 122% of MVA
- $445 M in deferred losses yet to be recognized

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Amortization Method Change

- Amortization was based on 4% payroll growth and a 30 year open period
- New amortization method using 3.83% payroll growth and a 30/20 layered amortization method
- The reduced payroll assumption increases the amortization payment
- No immediate impact from the 30/20 layered amortization methodology

Summary: What Caused the Rates to Increase?

Results are prior to phase-in calculations

June 30, 2007 Pension Contribution Rate	22.59%
Experience:	
Increase due to investment loss	1.63%
Increase due to retirement experience	.06%
Increase due to termination experience	.10%
Decrease due to salary gain	(.03%)
Increase due to post-retirement mortality loss	.19%
Methods:	
Decrease due to open amortization period	(0.48)%
Contribution timing lag	0.41%
Assumption Changes:	
Demographic Assumption Changes	1.58%
Economic Assumption Changes	3.64%
Other miscellaneous factors	.94%
Total Change in Contribution Rate	**8.04%**
June 30, 2009 Pension Contribution Rate	**30.63%**

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Membership Data

	2007	2009	% change
Active--payroll	$291 M	$323 M	10.9%
Active--average pay	$73,923	$79,191	7.1%
Active—average age	45.5	45.5	0.0%
Active--average years of service	11.7	11.6	(0.9%)
Retiree—average benefits	$33,987	$37,326	9.8%
Active Member/ Retiree Ratio	1.46	1.39	(4.8%)

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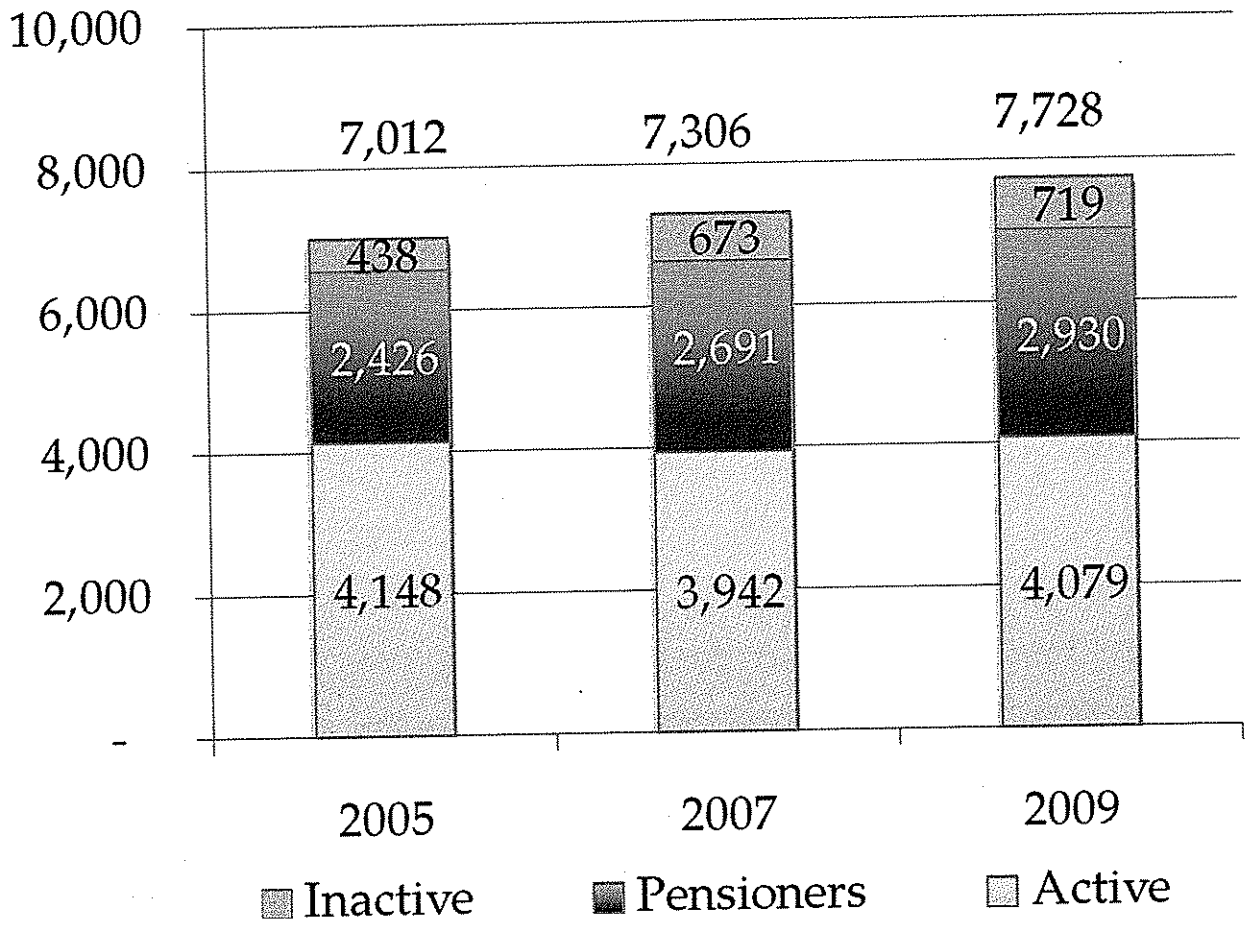
Membership Counts



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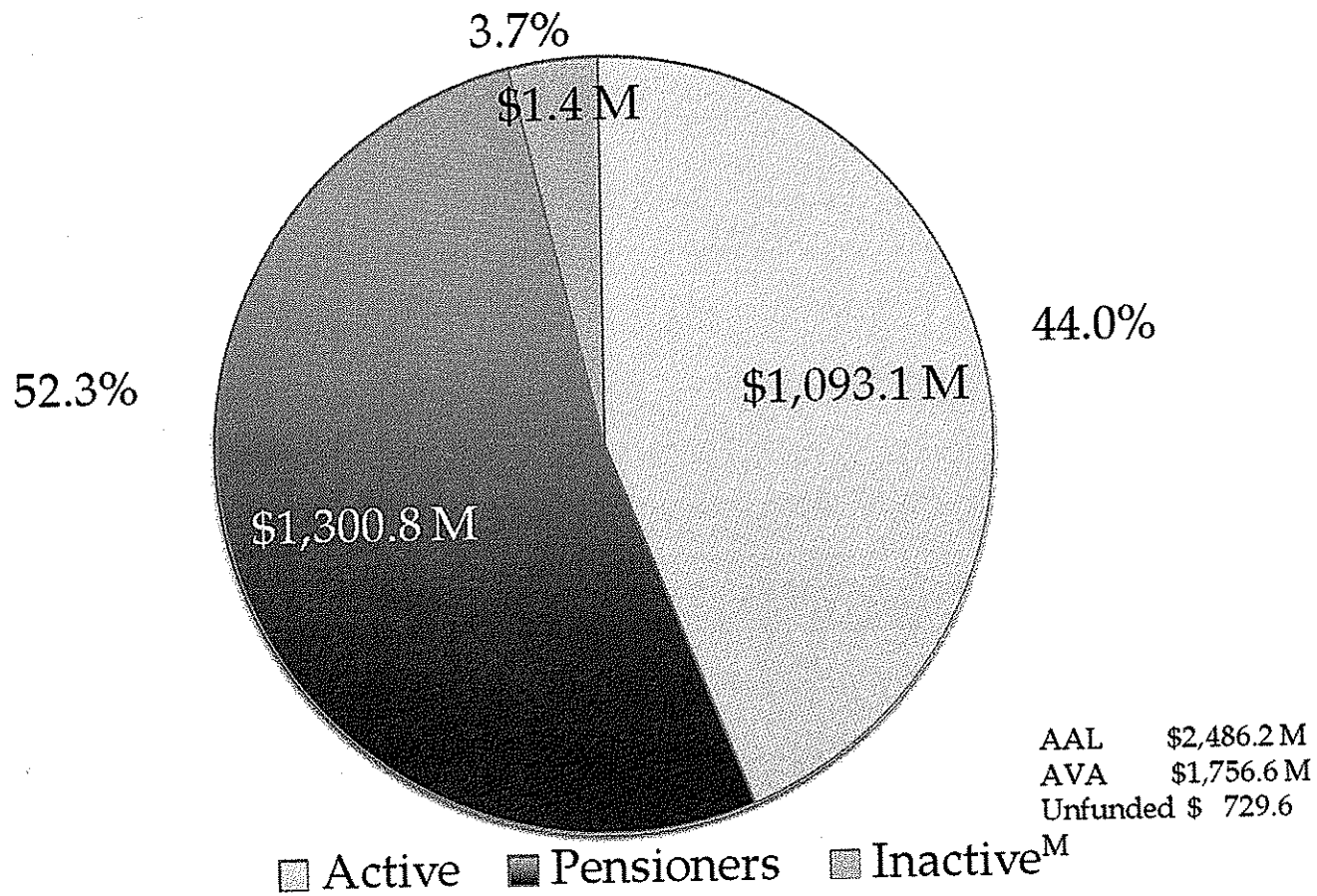
Actuarial Accrued Liability

AAL = $2,486.2 M



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Actuarial Valuation—Funding Progress

- Funding Progress- a look at the *trend* in the actuarial funding ratio over a number of years
- Funded Ratio is the ratio of the actuarial value of assets to the accrued liability of the plan
- Retirement Benefits only

2009	70.7%
2007	82.8%
2005	80.9%
2003	97.6%
2001	98.9%
1999	93.4%

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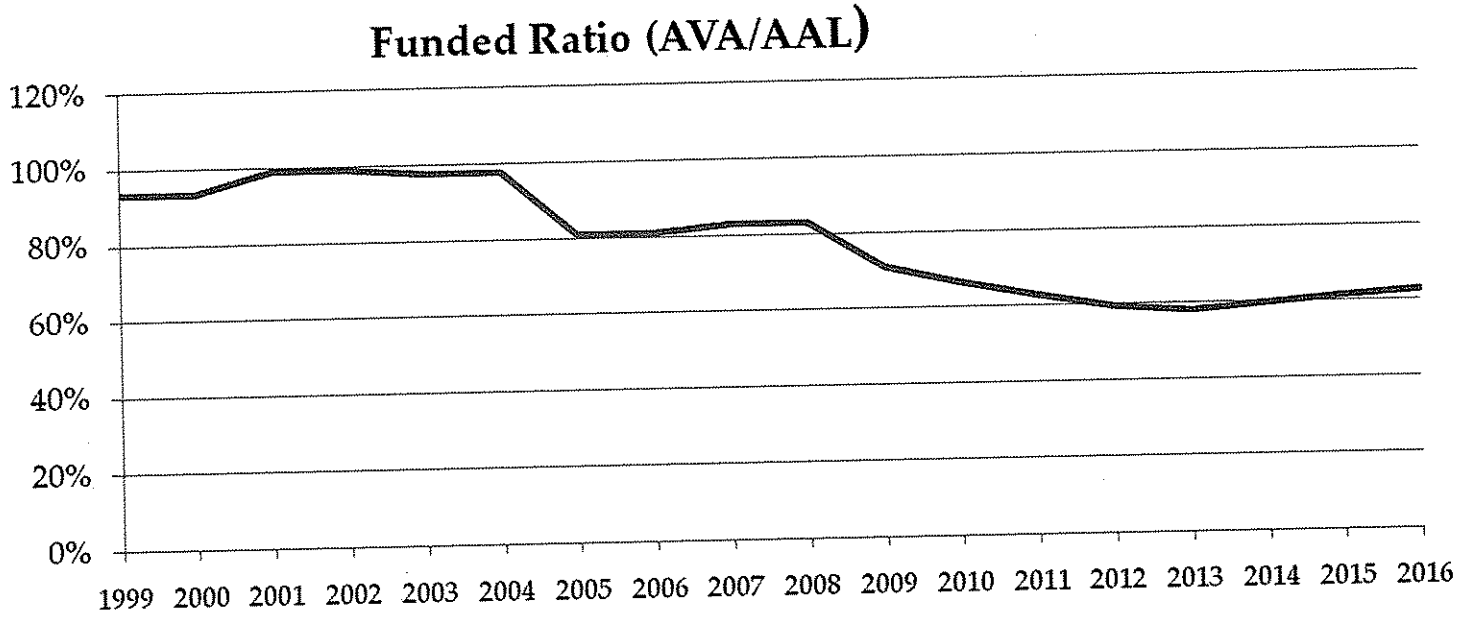
Funding Ratio Projection

- Funding ratio will continue to decline
  - Even if investment return assumption met
  - Declines until 2013 then begins to rise
  - Recognition of deferred asset losses
- Estimated using 7.75% returns for years 2010-2016



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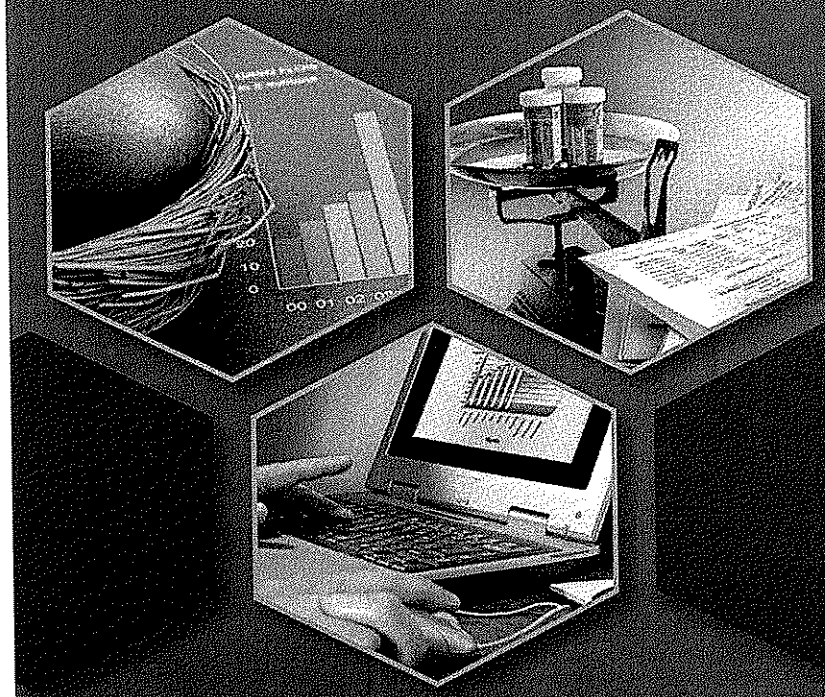

CITY OF SAN JOSE

Retiree Medical Benefits

Actuarial Valuation as of June 30, 2009

Leslie Thompson, FSA, FCA, EA, MAAA
Diane Hunt, FSA, EA, MAAA

March 11, 2010

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Background

- Previously, the member and City contribution rates have been determined based on the "policy" method
- The Board adopted a policy that the contributions will be phased in to meet the GASB standard for prefunding retirement benefits
- The valuation will illustrate the accounting ARC (based on the 6.7% discount rate)
- The contribution rate strategy exhibit will show the phasing in of the rate increase.

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Retiree Health Valuation

- Prior ultimate retiree health benefit contributions were based on a discount rate of 8.25%
- Based on the recent experience study, the investment return assumption for Trust fund has changed to 7.75%
- June 30, 2009 preliminary results at 7.75% show that the ***ultimate*** ARC is 15.34%.
- Based on the prior 8.25% discount rate, the ultimate ARC would have been 12.90%.
- The current contribution rate is 5.70% for the City, and 5.07% for the members
- Thus, the five year phase in is from a total of 10.77% of payroll, to 15.34% (adjusted for interest on missed contributions).
- Based on the estimated value of the interest on the missed contributions, the ARC in five years would be 16.00%

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Retiree Health Valuation

Current contribution rates compared to the ultimate ARC (without adjusting for missed contributions)

Contribution	2009 Current Contribution rates	2009 Ultimate ARC (7.75%)
Employer-Health	5.70%	7.99%
Employee-Health	5.07%	7.35%
Total	10.77%	15.34%

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Retiree Health Phase-In 2007 Schedule

- Board has adopted a funding policy for retiree health benefits to phase-in to a fully-funded ARC over 5 years
- Following prior phase-in schedule based on June 30, 2007 valuation

Fiscal Year	Employer	Employee	Total
2008/2009 Initial	5.25%	4.65%	9.90%
2009/2010 (1st year phase-in)	5.70%	5.07%	10.77%
2010/2011 (2nd year phase-in)	6.14%	5.47%	11.61%
2011/2012 (3rd year phase-in)	6.54%	5.86%	12.40%
2012/2013 (4th year phase-in)	6.93%	6.23%	13.16%
2013/2014 (5th year phase-in)	7.29%	6.59%	13.88%

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Retiree Health Phase-In 2009 Schedule

- Discount rate for the ultimate ARC has changed from 8.25% to 7.75%
- Experience study also recommended a change in the rates of mortality

Fiscal Year	Employer	Employee	Total
2009/2010 Contribution	5.25%	4.65%	9.90%
2010/2011 (1st year phase-in)	5.70%	5.07%	10.77%
2010/2012 (2nd year phase-in)	6.41%	5.76%	12.17%
2012/2013 (3rd year phase-in)	7.09%	6.43%	13.52%
2013/2014 (4th year phase-in)	7.72%	7.07%	14.79%
2014/2015 (5th year phase-in)	8.33%	7.67%	16.00%

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Investment Return Assumption for Annual Required Contribution (ARC)

- Continue use of blended rate investment return rate until phase-in complete
  - Auditor and staff have requested use of blended investment return rate until phase-in complete
  - Consistent with method used by other City of San Jose plans in developing ARC (Fire and Police pension funds)
  - This means that the liabilities and ARC that will be shown for accounting purposes will be based on the 6.7% rate

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Blended Rate Development for ARC

- Blended investment return rate is 6.7% compared to prior blended rate of 6.6%
  - Full funding investment return rate of 7.75% results in employer annual required contribution of 8.3%
  - Employer contribution for 2009/2010 is 5.70% from phase-in schedule
  - Employer contribution as percent of ARC is 69%
  - Blended investment return rate is 69% times 7.75% and 31% times risk-free rate of 4.5%

Accounting Exhibit

- The accounting rules under GASB require the CAFR to show the liabilities and contribution requirements based on the blended rate (6.7%)

Actuarial Item	Ultimate (7.75%)	Accounting Value (6.7%)	Actual Contributions
Total Accrued Liability	$694	$796	
Unfunded Accrued Liability	$608	$711	
Total Normal Cost	$16	$11	
Employer ARC	7.99%	8.92%	5.70%
Employee ARC	7.35%	8.21%	5.07%

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Accounting Implications

- A Net OPEB Obligation (NOO) exists when the actual employer contribution made differs from the ARC
- Plus, GASB requires the employer NOO to also reflect the differences in the employee contribution.
- Thus, the NOO will grow this year by the difference of 8.92% and 5.70% of payroll (3.22% of payroll) PLUS the difference of 8.21% and 5.07% (3.14%).
- The dollar amount in growth of the NOO is 6.36% of payroll, or $20.5 million.

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL VALUATION REPORT
AS OF JUNE 30, 2009

GRS

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March 1, 2010

Board of Administration
Federated City Employees' Retirement System
1737 N First Street
Suite 580
San Jose, CA 95112-4505

Re: Federated City Employees' Retirement System Actuarial Valuation as of June 30, 2009

Dear Members of the Board:

We are pleased to present the report of the actuarial valuation of the Federated City Employees' Retirement System of the City of San Jose ("System") as of June 30, 2009.

This valuation provides information on the funding status of the System. In addition, it includes a determination of the actuarially calculated contribution levels for the fiscal years ending June 30, 2011 and June 30, 2012.

This valuation is based on the provisions of the System in effect as of the valuation date, data on the System membership and information on the asset value of the trust fund as of that date. All member data and asset information were provided by System staff. While certain checks for reasonableness were performed, the data used was unaudited.

The actuarial assumptions and cost method are identical to those used in the prior actuarial valuation of the System.

To the best of our knowledge, this actuarial statement is complete and accurate, and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Gabriel, Roeder, Smith & Co.

Leslie Thompson, EA, FSA, FCA, MAAA
Senior Consultant

Diane L. Hunt, EA, FSA MAAA
Consultant

Table of Contents

SECTION A

REPORT HIGHLIGHTS

Report Highlights

The following is a set of key results for the prior valuation and for the current year:

Effective with the June 30, 2009 valuation, assumption changes as a result of the June 30, 2009 Experience Study have been incorporated in the results. The impact of these changes will be discussed in the following Section B, Comments and Recommendations.

In addition, the Retiree Healthcare valuation results are developed separately, as of June 30, 2009, in a report for the City of San Jose Federated Retiree Healthcare Plan.

	June 30, 2007	June 30, 2009	Percent Change
I. Total Membership			
A. Active Members	3,942	4,079	3.48%
B. Pensioners	2,691	2,930	8.88%
C. Inactive	673	719	6.84%
II. Valuation Compensation as of June 30			
A. Total Annual Payroll	$291,404,606	$323,020,387	10.85%
B. Average Annual Compensation	$73,923	$79,191	7.13%
III. Benefits to Current Pensioners and Beneficiaries			
A. Total Annual Benefits	$84,723,411	$101,193,707	19.44%
B. Average Annual Benefit	$31,484	$34,537	9.70%
IV. Total System Assets			
A. Actuarial Value (net of excludables)	$1,711,602,000	$1,867,377,164	9.10%
1. Retirement Assets	1,622,851,000	1,756,588,065	8.24%
2. Health Assets	88,751,000	110,789,099	24.83%
B. Market Value	$1,862,998,000	$1,442,202,000	-22.59%
1. Retirement Assets	$1,766,397,000	$1,356,638,000	-23.20%
2. Health Assets	$96,601,000	$85,564,000	-11.43%
V. Actuarial Information - Retirement Benefits			
A. Actuarial Accrued Liability	$1,960,943,000	$2,486,155,000	26.78%
B. Unfunded Actuarial Accrued Liability	$338,091,729	$729,567,166	115.79%
VI. Budget Items - Retirement Benefits			
A. Employer Cost (% of Pay)	18.31%	25.75%	7.44%
B. Employee Cost (% of pay)	4.28%	4.88%	0.60%
C. Total Contribution Rate (% of pay)	**22.59%**	**30.63%**	8.04%
VII. Funded Ratio - Retirement Benefits			
A. Based on Actuarial Value of Assets	82.8%	70.7%	-12.10%
B. Based on Market Value of Assets	90.0%	54.6%	-35.40%

SECTION B

COMMENTS AND RECOMMENDATIONS

Comments & Recommendations

COMMENT A: Effective with this valuation, the retiree health care benefits are being valued in a separate report for the San Jose Federated Retiree Health Care Plan. The results in this report do not include any liabilities or contribution calculations for retiree health care benefits.

COMMENT B: An experience study was performed for the six-year period ending June 30, 2009 for the San Jose Federated Employees' Retirement Plan. The Board adopted actuarial assumption changes and actuarial methodology changes that are incorporated in these results.

1. Economic assumption changes: The investment return assumption was reduced from 8.25%, net of expenses, to 7.75%, net of expenses. The underlying inflation assumption was reduced from 4.0% to 3.67%. The payroll growth assumption was reduced from 4.0% to 3.83% and the ultimate salary increase assumption was reduced from 4.25% to 4.08%.

   The impact of these changes was to increase actuarial accrued liability by $141.5 M and the total contribution requirement by 3.64%.

2. Demographic assumptions: A setback of three years for males and one year for females was added to the 94 Group Annuity Mortality Tables for post-retirement mortality. Pre-retirement mortality tables were changed to be the same as the post-retirement mortality tables.

   The impact of these changes was to increase actuarial accrued liability by $87.3 M and the total contribution requirement 1.58%.

3. Amortization methodology: The current amortization methodology amortizes the unfunded actuarial accrued liability over 30 years from the valuation date on an open basis. The Board adopted a 30/20 layered amortization methodology effective with this valuation. The initial unfunded actuarial accrued liability as of June 30, 2009 will be amortized over a closed amortization period of 30 years. Each year subsequent to this valuation, any gains/(losses) will be amortized over a closed 20-year period in a separate amortization schedule. The result is that each year another layer of amortization components is calculated. These layers are summed to obtain the total amortization component. The total amortization component is then added to the Normal Cost to get the total contribution requirement.

   There is no impact of this change on this year's contribution requirement because the amortization time frame of 30 years is the same for this year's unfunded actuarial accrued liability of $729.6 M under the prior and current method for June 30, 2009.

COMMENT C: The contribution rate for the Retirement Benefits increased from 22.59% to 30.63%. Based on the provisions of the Ordinance this total rate is allocated as follows:

1) 25.75% to the City
2) 4.88% to the employees

COMMENT D: The Retirement Plan funded ratio decreased from 82.80% to 70.70% on an actuarial value of assets basis. The retirement benefit funded ratio decreased from 90.0% to 54.60% on market value of assets basis.

COMMENT E: The principal reasons for the changes in contribution rates are as follows. Please refer to page 8 for additional details.

1) There was a $ 86.5 M loss on the actuarial value of assets. For this purpose, gains and losses are calculated relative to the 8.25% investment assumption that was in effect until June 30, 2009. The loss on assets increased the contribution requirement by 1.63%.
2) The change in economic assumptions, including investment return assumption, increased the contribution requirement by 3.64%. The change in the mortality assumption increased the contribution requirement by 1.58%.
3) There was a slight loss from retirements, terminations and withdrawals. The plan experienced a slight gain on salary increases.

COMMENT F: Due to actuarial smoothing, the market value of assets is not directly used in calculating computed rates. Deferred losses total $445.0 M and will enter the actuarial value of assets according to the 5 year smoothing schedule. As shown on Table 3 in Section D, each year has a gain/(loss) that is being smoothed into the actuarial value of assets. Unexpected market fluctuations are spread over a 5-year time frame.

COMMENT G: The UAL increased from $338.1 M to $729.6 M , or by 115.79%, for the retirement benefits over the prior year. If the UAL continues to have large increases that are not offset by assets in trust, and if the actuarially required contributions are not made, then the plan will require either an increase in assets or a reduction in liabilities to bring it back into actuarial balance (and to maintain long term solvency).

COMMENT H: The SRBR reserve balance as of June 30, 2009 was $19,786,000. This is excluded from valuation assets.

COMMENT I: The total number of plan participants, active and inactive, has increased from 7,306 total in 2007 to 7,728 in 2009, an increase of 5.8%. Total annual payroll increased from $291.4 M in 2007 to $323.0 M in 2009, an increase of 10.9%. Average pay increased 7.13% for the two year period.

COMMENT J: The Board has adopted a funding policy to phase-in the contribution rate increase of the 7.75% economic assumption changes over 5 years. The phase-in contribution percentages will be shown in a separate document. The results shown here are prior to phase-in adjustments.

SECTION C
VALUATION RESULTS

Valuation Results
Total Actuarial Contribution

Note: Effective this year, the Health Insurance Rate and Dental Insurance Rate are developed separately in a report for the City of San Jose Federated Retiree Health Care Plan.

The San Jose Municipal Code provides that the required annual contribution is allocated between the City and the members as follows:

- The **Current Service Rate (Normal Rate)** is the cost for funding liabilities for service after July 1, 1975. This cost is shared 8/3 between the City and the Members.
- The **Current Service Deficiency Rate** is the amortization of the funding deficiency for service after July 1, 1975 which is not covered by the Current Service Rate. The City bears this entire cost.
- The **Prior Service Rate** is the difference in costs between the current plan and the predecessor plan (the "1964 Plan') for service before July 1, 1975. The cost is shared 58/42 between the City and the Members. Additionally, the City's Prior Service Rate reflects the entire cost for any gains or losses associated with liabilities for service prior to July 1, 1975 (**Prior Service Deficiency Rate**).
- The **Golden Handshake Rate** is the cost for funding the additional benefits granted to certain retiring employees. The City bears this entire cost.
- The **Reciprocity Rate** represents prefunding of the liability associated with the adoption of reciprocal benefits with other public pension plans. The City bears this entire cost.

The contribution rates developed in this valuation are summarized as follows:

Recommended Contributions for Fiscal Years 2011 and 2012

	Percentage of Salary		
	City	Member	Total
Contribution for Retirement, Disability, and Death Benefits	25.75%	4.88%	30.63%

Valuation Results

Explanation of Contribution Change Since the Last Valuation

The effect of experience on the System's total contribution rate is as follows:

Note that these results do not include the phase-in.

June 30, 2007 Pension Contribution Rate		**22.59%**
Experience:		
Increase due to Investment Loss	1.63 %	
Increase due to More Retirements than Anticipated	0.06 %	
Increase due to More Terminations than Anticipated	0.10 %	
Decrease due to Salary Gain	(0.03)%	
Increase due to Post-Retirement Mortality Loss	0.19 %	
Methods:		
Decrease due to Open Amortization Period	(0.48)%	
Increase due to Contribution Timing Lag	0.41 %	
Assumption Changes:		
Increase due to Demographic Assumption Change	1.58 %	
Increase due to Economic Assumption Change	3.64 %	
Other Miscellaneous Factors	0.94 %	
Total Change in Contribution Rate		**8.04 %**
June 30, 2009 Pension Contribution Rate		**30.63 %**

Computed Contribution Rates - Historic Comparison

Valuation Date	CITY Retirement	CITY Health[1]	CITY Total	MEMBER[2]	TOTAL	Valuation Payroll (thousands)
6/30/1991	n/a	n/a	n/a	n/a	22.47%	n/a
6/30/1993	n/a	n/a	n/a	n/a	26.13%	$145,781
6/30/1995	n/a	n/a	n/a	n/a	26.65%	153,918
6/30/1997	n/a	n/a	n/a	n/a	21.83%	176,284
6/30/1999	15.33%	0.76%	16.09%	4.76%	20.85%	193,650
6/30/2001	13.82%	1.38%	15.20%	5.08%	20.28%	252,696
6/30/2003	14.96%	2.16%	17.12%	6.06%	23.18%	292,961
6/30/2005	18.16%	3.82%	21.98%	7.58%	29.56%	286,446
6/30/2007	18.31%	5.25%	23.56%	8.93%	32.49%	291,405
6/30/2009	25.75%	-	25.75%	4.88%	30.63%	323,020

[1]Effective 6/30/2009, health contribution rates will be calculated in a separate Retiree Health report.

[2]Effective 6/30/2009, member contributions shown on this chart are for retirement benefits only. Member health contribution rates will be calculated in a separate Retiree Health report.

Valuation Results

Recommended Contributions for Retirement Benefits
Fiscal Years 2011 and 2012

	City	Members	Total
For Basic Retirement Benefits			
Current Service Normal Rate	9.82%	3.68%	13.50%
Current Service Deficiency Rate	8.00%	N/A	8.00%
Prior Service Normal Rate	0.01%	0.01%	0.02%
Prior Service Deficiency Rate	0.90%	N/A	0.90%
Retirement Golden Handshake Rate	0.26%	N/A	0.26%
Reciprocity	0.50%	N/A	0.50%
Total Contributions for Basic Retirement Benefits	19.49%	3.69%	23.18%
For Cost-of-Living (COL) Retirement Benefits			
Current Service Normal Rate	3.15%	1.19%	4.34%
Current Service Deficiency Rate	2.85%	N/A	2.85%
Prior Service Normal Rate	0.01%	0.00%	0.01%
Prior Service Deficiency Rate	0.00%	N/A	0.00%
Retirement Golden Handshake Rate	0.08%	N/A	0.08%
Reciprocity	0.16%	N/A	0.16%
Total Contributions for COL Retirement Benefits	6.25%	1.19%	7.44%
Total Contributions for Retirement Benefits	25.75%	4.88%	30.63%

*Numbers may not add due to rounding.

Valuation Results

Summary of Actuarial Values

($ in 000's)

		Entry Age Actuarial Values	
	Present Value of Projected Benefits	**Actuarial Accrued Liability (AAL)**	**Normal Cost % of Pay**
(1) Active Members			
a. Retirement	$ 1,308,642	$ 986,710	13.63%
b. Termination	82,994	35,495	1.82%
b. Death	37,193	21,590	0.67%
c. Disability	71,629	37,838	1.44%
d. Refunds	26,646	11,408	0.60%
Total	$ 1,527,104	$ 1,093,041	18.16%
(2) Benefit Recipients	$ 1,300,766	$ 1,300,766	0.00%
(3) Other Inactives	92,348	92,348	0.00%
(4) Total Actuarial Values of Benefits	$ 2,920,218	$ 2,486,155	18.16%
(5) Actuarial Value of Assets		$ 1,756,588	
(6) Unfunded Actuarial Accrued Liability: (4 - 5)		$ 729,567	
(7) Funding Ratio		70.65%	

Valuation Results

Actuarial Balance Sheet - Retirement Benefits
As of June 30, 2009
($ in 000's)

ASSETS AND PRESENT VALUE OF EXPECTED FUTURE RESOURCES

			Total
(1) Actuarial Value of Assets			$ 1,756,588
(2) Present Value of Future Expected City Contributions			
a. Normal Rate		335,478	
b. Deficiency Rate	709,785		
c. Golden Handshake	19,782		
d. Unfunded Accrued Liability: (b) + (c)		729,567	
e. Total			1,065,045
(3) Present Value of Future Expected Member Contributions			98,585
(4) Total Present and Expected Future Resources			**$ 2,920,218**

PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS AND RESERVE

			Total
(1) To Retirees and Beneficiaries			$ 1,300,766
(2) To Vested Terminated and Inactive Members			92,348
(3) To Active Members			
a. Allocated to service rendered prior to valuation date		1,093,041	
b. Allocated to service expected to be rendered in the future		434,063	
c. Total			1,527,104
(4) Total Present Value of Expected Future Benefit Payments			**$ 2,920,218**

Unfunded Actuarial Accrued Liability for Retirement Benefits Only June 30, 2009

Derivation of Experience Gain (Loss)

Analysis of actuarial gains and losses in a pension benefit program is a review of the effects on actuarial results of actual experience that differs from assumed experience. If such a difference increases assets or reduces liabilities, there is an actuarial gain. The reverse is an actuarial loss.

(1) Unfunded Actuarial Accrued Liability (UAAL) as of June 30, 2007		$338,091,729
(2) Expected Change in UAAL during 2008 - 2009		
a. Normal Cost for 2008 - 2009	$97,939,344	
b. Contributions during 2008 - 2009	(139,192,000)	
c. Interest adjustments on 1, 2a, & 2b @ 8.25%	54,682,928	
d. Adjustment for timing lag of contributions	588,206	
e. Expected change in UAAL		14,018,478
(3) Increase in UAAL due to Assumption Changes		228,787,364
a. Due to Demographic Assumption change		87,268,935
b. Due to Economic Assumption change		141,518,429
(4) Expected UAAL as of June 30, 2009 [(1) + (2) + (3)]		580,897,571
(5) Actual UAAL as of June 30, 2009		729,567,166
(6) Total Gain / (Loss) - based on deviating experience from prior assumptions		(148,669,595)
a. Approximate portion of gain/(loss) due to investments		(86,478,000)
b. Approximate portion of gain/(loss) due to liabilities		(62,191,595)
(7) Total Gain/ (Loss) as % of 6/30/07 liabilities		(7.6)%
a. Gain/(loss) due to investments as % of 6/30/07 liabilities		(4.4)%
b. Gain/(loss) due to liabilities as % of 6/30/07 liabilities		(3.2)%

SECTION D
ASSET INFORMATION

Asset Information

Statement of Plan Assets
June 30, 2009
($ in 000's)

	Pension Benefits	Post-Employement Healthcare	Total
ASSETS			
Receivables			
Employee Contribution	634	691	1,325
Employer Contribution	5,760	1,652	7,412
Brokers and Others	27,498	1,736	29,234
Accrued Investment Income	6,919	436	7,355
	40,811	4,515	45,326
Investments			
Short Term Funds	41,642	2,562	44,204
Short Term Currency Investments	(108)	(6)	(114)
Government Debt Securities	205,401	12,639	218,040
Corporate Debt Securities	302,594	18,619	321,213
Equities	725,720	44,656	770,376
Real Estate	82,985	5,249	88,234
Securities Lending Pool	19,909	1,255	21,164
	1,378,143	84,974	1,463,117
Total Assets	**$1,418,954**	**$89,489**	**$1,508,443**
Liabilities			
Payable to Brokers	39,192	2,471	41,663
Securities Lending Collateral Due	21,770	1,373	23,143
Other Liabilities	1,354	81	1,435
Total Liabilities	**$62,316**	**$3,925**	**$66,241**
Net Assets Available For Benefits	**$1,356,638**	**$85,564**	**$1,442,202**

Asset Information

Statement of Changes in Plan Assets
For the Fiscal Year Ended June 30, 2009
($ in 000's)

	Pension Benefits	Post-Employement Healthcare	Total
ADDITIONS			
Contributions			
Employee Contribution	13,848	15,076	28,924
Employer Contribution	57,020	16,368	73,388
	70,868	31,444	102,312
Investment Income			
Net Appreciation	(330,179)	(20,705)	(350,884)
Dividends and Interest	38,011	2,386	40,397
Net Rental Income	4,128	259	4,387
Investment Expense	(6,803)	(425)	(7,228)
Net Securities Lending Income	(930)	(58)	(988)
	(295,773)	(18,543)	(314,316)
Total Additions	**(224,905)**	**12,901**	**(212,004)**
DEDUCTIONS			
Retirement Benefits	89,767	-	89,767
Health Insurance Premiums	-	21,725	21,725
Death Benefits	6,923	-	6,923
Refunds	1,395	-	1,395
Administrative Expenses	2,108	132	2,240
Total Deductions	**100,193**	**21,857**	**122,050**
NET ASSETS AVAILABLE FOR BENEFITS			
Beginning of Year	**1,681,736**	**94,520**	**1,776,256**
End of Year	**1,356,638**	**85,564**	**1,442,202**

Asset Information

Development of Actuarial Value of Assets
As of June 30, 2009
($ in 000's)

(1)	**Market Value of Assets**		**1,442,202**
(2)	Deferred Gains / (Losses)	Total	Deferred
	June 30, 2009 Loss (80% deferred)	(460,059)	(368,047)
	June 30, 2008 Loss (60% deferred)	(216,586)	(129,952)
	June 30, 2007 Gain (40% deferred)	124,325	49,730
	June 30, 2006 Gain (20% deferred)	16,539	3,308
	Total		(444,961)
(3)	Actuarial Value of Assets (AVA) @ 6-30-2009 (1) - (2)		1,887,163
	(including excludable assets)		
	a. SRBR Reserve		19,786
	b. Contingency Reserve		-
	c. AVA @ 6-30-2009 (net of excludable assets)		1,867,377
(4)	Allocation of Actuarial Value of Assets ("AVA")		
	a. Post-employment Health Care Fund		
	1. Post-Employment Health Care Fund Market Value of Assets		85,564
	2. Total Market Value of Assets		1,442,202
	3. AVA Allocated to Post-Employment Health Care Fund [4(a)(1)/4(a)(2)] x 3(c)		110,789
	b. Retirement Benefits		
	1. Pension Benefits Market Value of Assets		1,356,638
	2. Total Market Value of Assets		1,442,202
	3. AVA Allocated to Pension Benefits [4(b)(1)/4(b)(2)] x 3(c)		1,756,588

SECTION E

FUNDING PROGRESS–INFORMATION FOR GASB NO. 25 & 27

Funding Progress Indicators
June 30, 2009

There is no single all-encompassing indicator which measures a retirement system's funding progress and current funded status. A traditional measure has been the relationship of valuation assets to unfunded actuarial accrued liability -- a measure that is influenced by the choice of actuarial cost method.

We believe a better understanding of funding progress and status can be achieved using the following indicators which are independent of the actuarial cost method.

(1) The ratio of assets to the actuarial present value of credited projected benefits allocated in the proportion accrued service is to projected total service -- a plan continuation indicator. The ratio is expected to increase in the absence of benefit improvements or strengthening of actuarial assumptions.

(2) The ratio of the unfunded actuarial present value of credited projected benefits to member payroll - a plan continuation indicator. In a soundly financed retirement system, the amount of the unfunded actuarial present value of credited projected benefits will be controlled and prevented from increasing in the absence of benefit improvements or strengthening of actuarial assumptions. However, in an inflationary environment, it is seldom practical to impose this control on dollar amounts which are depreciating in value. The ratio is a relative index of condition where inflation is present in both items. The ratio is expected to decrease in the absence of benefit improvements or strengthening of actuarial assumptions.

Funding Progress

Schedule of Funding Status for Retirement Benefits
($ in 000's)

End of Year	Actuarial Value of Assets (a)	AAL (b)	UAAL (b-a)	Funding Ratio (a/b)	Payroll (c)	UAAL as % of Payroll ((b-a)/c)
1993	$ 489,865	$ 583,119	$ 93,254	84.0%	$ 145,781	64.0%
1995	566,102	658,175	92,073	86.0%	153,918	59.8%
1997	678,954	735,772	56,818	92.3%	176,284	32.2%
1999	804,860	862,226	57,366	93.4%	193,650	29.6%
2001	1,060,144	1,072,333	12,189	98.9%	252,696	4.8%
2003	1,280,719	1,311,691	30,972	97.6%	292,961	10.6%
2005	1,384,454	1,711,370	326,916	80.9%	286,446	114.1%
2007	1,622,851	1,960,943	338,092	82.8%	291,405	116.0%
2009	1,756,588	2,486,155	729,567	70.7%	323,020	225.9%

Funding Progress

Schedule of Employer Contributions

Retirement Benefits Only

Fiscal Year	Annual Required Contribution	Percentage Contributed
1999/2000	15.37%	100.00%
2000/2001	15.33%	100.00%
2001/2002	15.33%	100.00%
2002/2003	13.82%	100.00%
2003/2004	13.82%	100.00%
2004/2005	14.96%	100.00%
2005/2006	14.96%	100.00%
2006/2007	18.16%	100.00%
2007/2008	18.16%	100.00%
2008/2009	18.31%	100.00%
2009/2010	18.31%	N/A

SECTION F
SUMMARY OF BENEFIT PROVISIONS

Summary of Retirement Benefit Provisions

This section summarizes the major benefit provisions as included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of benefit provisions.

1. Eligibility: Full-time employees are eligible on their first day of City employment.

2. Final Compensation: Highest 12-month average salary, if separation takes place on or after July 1, 2001.

Highest consecutive 36-month average salary, if separation takes place before July 1, 2001.

3. Service Retirement:

A) Eligibility: Age 55 with 5 years of service, or any age with 30 years of service.

B) Benefit: 2.5% of Final Compensation for each year of service. Maximum benefit is 75% of Final Compensation.

C) Form of Payment: Monthly benefit payable for life.

4. Disability Retirement:

A) Eligibility: Physically or mentally incapacitated so unable to perform duties of position. If disability is not service connected, then the member must have at least five years of City service.

B) Benefit: *Service-connected benefit*: 2.5% of Final Compensation per year of service. The maximum benefit is 75% and the minimum benefit is 40% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

For those members who were hired prior to September 1, 1998, the non-service connected benefit is the amount of the service-connected benefit reduced by .5% for every year under age 55.

For those members who are hired on or after September 1, 1998, the non-service connected benefit is as follows:

20% of Final Compensation for 6 years of service;
Plus 2% for each years of service in excess of 6, but less than 16;
Plus 2.5% for each year of service in excess of 16.

C) Form of Payment: Monthly benefit payable, while incapacitated or if over age 55, for life.

5. Deferred Service Retirement:

A) Eligibility: Five years of membership prior to termination of City service. Member must leave contributions on deposit until retirement.

B) Benefit: Same as Service Retirement, payable anytime after age 55.

C) Form of Payment: Same as Service Retirement.

6. Pre-Retirement Death Benefits:

A) Non-Service Connected with less than five years of service, or No Family Members Eligible for Allowance:

Member's beneficiary or estate receives (i), and (ii) where:

(i) = Accumulated contributions with interest.

(ii) = Lump sum benefit of one month's salary for each year of service, up to six years.

B) Service-Connected, or Non-Service Connected with five years of service:

Member's eligible survivor receives 2.5% of Final Compensation per years of service. The maximum benefit is 75% and the minimum benefit, if still an active employee at time of death is 40% of Final Compensation, payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the Member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the Member's spouse or registered domestic partner.

7. Post-Retirement Death Benefits:

Member's eligible survivor or domestic partner receives (i) and (ii),

(i) = 50% continuance to surviving eligible spouse or domestic partner; if there is no surviving spouse or domestic partner, certain benefits are paid to the children.

(ii) = $500 death benefit allowance at death of retiree.

8. Post-retirement Cost-of-Living Benefits:

A) Prior to April 1, 2006:	Each April 1, the benefits are increased by the percentage increase in CPI (to a maximum of 3%). Increases in CPI above 3% are "banked" to apply in years when CPI increase is less than 3%.
B) April 1, 2006 and after:	Each April 1 beginning with April 1, 2006, the benefits are increased by a flat 3% per annum, without banking. The first cost-of-living adjustment is on the first day of the month following the one-year anniversary of retirement. The next adjustment will be prorated for the number of months remaining until the following April.

9. Employee Contributions: The Members' contribution rates are recalculated on an actuarial basis at each actuarial study to fund 3/11 of benefits. Contributions are credited with 3% interest annually (the interest crediting provision was changed from 7.25% to 3% effective July 1, 2001).

Note: If any of these provisions are incorrect, please inform the actuary.

SECTION G
MEMBERSHIP DATA

Membership Data

Summary of Data Characteristics

	June 30, 2007	June 30, 2009	Percentage Change
Active Members*			
Number	3,942	4,079	3.5%
Average Age	45.5	45.5	0.0%
Average Years of Service	11.6	11.6	0.0%
Total Annual Compensation	291,404,606	323,020,387	10.8%
Average Annual Compensation	73,923	79,191	7.1%
Retirees & Disabled Members			
Number	2,313	2,518	8.9%
Average Age	68.1	68.3	0.3%
Total Annual Allowance	78,613,023	93,987,905	19.6%
Average Annual Benefit	33,987	37,326	9.8%
Beneficiaries			
Number	378	412	9.0%
Average Age	72.2	72.6	0.6%
Total Annual Allowance	6,110,388	7,205,802	17.9%
Average Annual Benefit	16,165	17,490	8.2%
Benefit Recipients - Total			
Number	2,691	2,930	8.9%
Average Age	68.7	68.9	0.3%
Total Annual Allowance	84,723,411	101,193,707	19.4%
Average Annual Benefit	31,484	34,537	9.7%
Inactive Members*			
Number	673	719	6.8%
Average Age	44.3	45.3	2.3%
Total Annual Allowance	8,427,812	9,498,067	12.7%
Average Annual Benefit	12,523	13,210	5.5%

* Leave of Absence included as included as Inactive in 2007 and 2009

Membership Data

Active Members Age and Service Distribution as of June 30, 2009

Age	Years of Service								Totals
	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30 & Over	
Under 20	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	$0
20-24	23	31	-	-	-	-	-	-	54
	$51,134	$47,846	-	-	-	-	-	-	$49,246
25-29	39	191	36	-	-	-	-	-	266
	$62,715	$60,329	$63,009	-	-	-	-	-	61,042
30-34	27	191	149	28	1	-	-	-	396
	$60,068	$66,039	$74,156	$77,520	70,200	-	-	-	69,508
35-39	9	135	197	139	22	3	-	-	505
	$63,621	$72,310	$76,632	$84,103	$78,621	$73,490	-	-	77,369
40-44	13	108	162	159	91	45	2	-	580
	$76,209	$70,000	$78,800	$79,530	$86,610	$78,715	$74,641	-	78,508
45-49	14	102	130	139	152	151	37	-	725
	$73,549	$77,350	$82,388	$85,263	$91,269	$85,110	$81,718	-	84,454
50-54	11	87	103	109	134	137	104	6	691
	$70,774	$78,774	$78,524	$82,334	$88,747	$89,466	$89,070	$85,686	84,834
55-59	4	53	100	94	93	97	42	13	496
	$117,126	$83,423	$84,446	$83,791	$81,079	$93,987	$90,384	$83,442	86,187
60-64	2	28	53	67	58	41	20	6	275
	$44,970	$72,042	$75,022	$78,553	$87,935	$86,734	$77,888	$87,691	80,315
65&Over	1	5	20	31	14	17	3	-	91
	$105,830	$71,103	$99,402	$75,601	$72,335	$78,445	$56,042	-	80,301
Totals	143	931	950	766	565	491	208	25	4,079
	$64,892	$69,257	$78,302	$82,004	$86,902	$87,327	$86,337	$85,000	$79,191

SECTION H
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods

Actuarial Cost Method – Normal cost and the allocation of benefit values between service rendered before and after the valuation date were determined using an **Individual Entry-Age Actuarial Cost Method** having the following characteristics:

(i) The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;

(ii) Each annual normal cost is a constant percentage of the member's year by year projected covered pay.

Actuarial gain/(losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

The Actuarial Accrued Liability (AAL) under this method is the theoretical asset balance such normal costs would have accumulated to date based on current assumptions. To the extent that the assets of the fund are insufficient to cover the AAL, an Unfunded Actuarial Accrued Liability (UAAL) develops.

The actuarially calculated contribution for a year is the NC for that year plus an amount to amortize the UAAL as a level percentage of pay over the period adopted by the Board as described below.

Financing of Unfunded Actuarial Accrued Liability. Prior to June 30, 2009, the Unfunded Actuarial Accrued Liability was amortized by level (principal and interest combined) percent of payroll contributions over a 30 year open period.

Subsequent to June 30, 2009, the Unfunded Actuarial Accrued Liability as of June 30, 2009 is amortized over a 30 year closed period. Gains/(losses) in future years will be amortized over a 20 year closed period, with an amortization schedule set up for each gain or loss in each year separately.

Payroll Increase Assumption. Prior to June 30, 2009, active member payroll in aggregate was assumed to increase 4.0% a year for the purpose of determining the level percent contributions. Subsequent to June 30, 2009, the payroll assumption was changed to a yearly increase of 3.83%.

Asset Valuation Method. The Actuarial Value of Assets recognizes 20% of total return in excess of (or less than) the investment return assumption for each of the last five years. This method has the effect of smoothing volatility in investment returns.

Actuarial Assumptions Used for the June 30, 2009 Valuation

Note that the actuarial assumptions in this report reflect assumption changes adopted as a result of the June 30, 2009 Experience Analysis. The contribution requirements and benefit values of the Fund are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described on the previous page.

The principal areas of financial risk which require assumptions about future experiences are:

(i) long-term rates of investment return to be generated by the assets of the Fund.

(ii) patterns of pay increases to members.

(iii) rates of mortality among members, retirees, and beneficiaries.

(iv) rates of withdrawal of active members (without entitlement to a retirement benefit).

(v) rates of disability among members.

(vi) the age patterns of actual retirements.

Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary and the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

Actuarial Assumptions Used for the June 30, 2009 Valuation

The Investment Return Rate assumed in the actuarial valuation calculations was changed effective July 1, 2009 from 8.25% a year, net of investment and administrative expenses, compounded annually to 7.75% a year, net of investment and administrative expenses, compounded annually. This assumption is used to equate the value of payments due at different points in time. The rate is comprised of two elements:

	Current	Prior
Inflation	3.67%	4.00%
Real Rate of Return	4.08%	4.25%
Total	7.75%	8.25%

The Inflation Rate assumed in the actuarial valuation was changed effective July 1, 2009 from 4.00% per year compounded annually to 3.67% per year compounded annually. It represents the difference between the investment return rate and the assumed real rate of return. Inflation actually experienced, as measured by the Consumer Price Index for urban wage earners, has been as follows:

Consumer Price Index
Urban Wage Earner and Clerical Workers Before 1978
All Urban Consumers After 1977

10 Year Moving Averages

June 30, 1969	0.0%
June 30, 1979	7.1%
June 30, 1989	5.6%
June 30, 1999	3.0%
June 30, 2009	2.7%
50-Year Average	**4.1%**

Interest credited to member contributions is 3.00%, compounded annually.

Salary Increase Rates for individual active members are used in projecting future benefits payable from the system. Rates do not vary by age, but do reflect an added merit component, for those with 0-4 years of service at the valuation date. Part of the assumption for each age is for merit and/or seniority increase and part recognizes wage inflation.

The salary increase assumption was changed effective July 1, 2009 for the base annual rate of salary increase while the merit/longevity component remained the same. The current and prior rates are shown on the following table.

Base Annual Rate of Salary Increase

	Current	Prior
Inflation	3.67%	4.00%
Merit and Longevity	0.33%	0.25%
Total	4.08%	4.25%

Additional merit component

Years of Service at Valuation Date	Merit/ Longevity
0	5.50%
1	3.50%
2	2.00%
3	1.50%
4	0.75%

Actuarial Assumptions Used for the June 30, 2009 Valuation

Rates of separation from active membership are shown below (rates do not apply to members eligible to retire and do not include separation on account of death). This assumption measures the probabilities of members remaining in employment.

% of Active Members Separating Within Next Year

Sample Ages	Disability[1]	Withdrawal	Vested[2] Termination
20	.04%	11.00%	---%
25	.06	7.00	3.00
30	.07	5.00	3.00
35	.09	2.50	2.75
40	.15	1.50	2.00
45	.25	1.25	2.00
50	.40	1.25	1.50
55	.50	1.00	0.00
60	1.00	1.00	0.00
65	2.00	0.00	0.00
70	0.00	0.00	0.00

[1] 50% of the disabilities are assumed to be duty-related and 50% are assumed to be non-duty related.

[2] 30% of terminating employees who leave their contributions in the Plan, with 5+ years of service, are assumed to subsequently work for a reciprocal employer and receive 4.0% pay increases per year.

For inactive members, the assumed age at retirement is age 58.

If an inactive member is not vested, the liability valued is their employee contributions with interest.

Actuarial Assumptions Used for the June 30, 2009 Valuation

The post-retirement mortality table used for healthy retirees and beneficiaries was the 1994 Group Annuity Mortality Table (sex distinct) for valuations prior to June 30, 2009. Effective July 1, 2009, the mortality table is the 1994 Group Annuity Mortality Table setback three years for males and one year for females. This assumption is used to measure the probabilities of members dying after retirement and the probabilities of each benefit payment being made after retirement. Values are shown below.

Future Life Expectancy (Years)
(Retired)

	Current		Prior	
Sample Ages	Men	Women	Men	Women
45	38.2	40.6	35.4	39.7
50	33.5	35.8	30.7	34.9
55	28.9	31.1	26.2	30.2
60	24.4	26.5	21.8	25.6
65	20.2	22.1	17.8	21.3
70	16.4	18.1	14.3	17.3
75	13.0	14.3	11.1	13.6
80	10.0	10.9	8.4	10.3

% of Benefit Recipients Dying Each Year
(Retired)

	Current		Prior	
Sample Ages	Men	Women	Men	Women
45	0.13%	0.09%	0.16%	0.10%
50	0.19	0.13	0.26	0.14
55	0.32	0.21	0.44	0.23
60	0.56	0.39	0.80	0.44
65	1.01	0.76	1.45	0.86
70	1.80	1.27	2.37	1.37
75	2.85	2.04	3.72	2.27
80	4.52	3.54	6.20	3.94

The post-retirement mortality table used for disabled retirees was the 1981 Disability Mortality Table. Values are shown below.

	Future Life Expectancy (Years)	**% of Benefit Recipients Dying Each Year**
	Retired	
Sample Ages	Disabled	Disabled
45	23.6	2.08%
50	21.1	2.44
55	18.7	2.84
60	16.4	3.30
65	14.1	3.79
70	11.7	4.37
75	9.2	5.53
80	7.0	8.74

The active member mortality assumption measures the probability of mortality before retirement. The rates include probability of ordinary death, service death, and death while eligible for retirement or disability. The mortality rates used for active mortality were revised effective July 1, 2009 to use the 1994 Group Annuity Mortality table setback three years for males and one year for females.

	% of Active Members Dying Each Year (Active)			
	Current		Prior	
Sample Ages	Men	Women	Men	Women
45	0.13%	0.09%	0.09%	0.08%
50	0.19	0.13	0.16	0.13
55	0.32	0.21	0.26	0.20
60	0.56	0.39	0.38	0.30
65	1.01	0.76	0.53	0.44
70	1.80	1.27	2.37	1.37
75	2.85	2.04	3.72	2.27
80	4.52	3.54	6.20	3.94

Actuarial Assumptions Used for the June 30, 2009 Valuation

The rates of retirement used to measure the probability of eligible active members retiring during the next year.

Retirement Ages	% of Active Members Separating Within Next Year[1]
50	---%
51	---%
52	---%
53	---%
54	---%
55	15.0%
56	7.5
57	7.5
58	7.5
59	7.5
60	7.5%
61	7.5
62	20.0
63	10.0
64	10.0
65	25.0%
66	25.0
67	25.0
68	25.0
69	25.0
70	100.0

[1]Superceded by 50% retirement probability each year after completion of 30 years of service and attainment of age 50.

Actuarial Assumptions Used for the June 30, 2009 Valuation

Disability Benefit Offset. Workers' Compensation Benefits are not assumed to be an offset.

Survivor Benefits. Marital status and spouses' census data were imputed with respect to active and deferred members.

Marital Status: 75% of men and 55% of women were assumed married at retirement.

Spouse Census: Women were assumed to be 3 years younger than men.

"Spouse" is assumed to encompass a registered domestic partner.

SECTION I

FINANCIAL PRINCIPLES AND OPERATIONAL TECHNIQUES

Financial Principles and Operational Techniques

Promises Made, and To Be Paid For. As each year is completed, the Retirement System in effect hands an "IOU" to each member then acquiring a year of service credit – the "IOU" says: "The San Jose Federated City Employees' Retirement System owes you one year's worth of retirement benefits, payments in cash commencing when you qualify for retirement."

The related key financial questions are:

Which generation of taxpayers contributes the money to cover the IOU?

> **The present taxpayers**, who receive the benefit of the member's present year of service; or
>
> **The future taxpayers**, who happen to be in San Jose at the time the IOU becomes a cash demand, years and decades later?

The principle of level percent of payroll financing intends that this year's taxpayers contribute the money to cover the IOUs being handed out this year. By following this principle, the employer contribution rate will remain approximately level from generation to generation (after funding of the system's initial unfunded liability is addressed) – our children and our grandchildren will contribute the same percents of active payroll we contribute now.

(There are systems which have a design for deferring contributions to future taxpayers, lured by a lower contribution rate now and putting aside the consequence that the contribution rate must then grow much greater over decades of time.)

An inevitable by-product of the level-cost design is the accumulation of reserve assets, for decades, and income produced when the assets are invested. Invested assets are a by-product and not the objective. Investment income becomes, in effect, the 3rd contributor for benefits to employees, and is interlocked with the contribution amounts required from employees and employer.

Financial Principles and Operational Techniques

Translated to actuarial terminology, this level-cost objective means that the contribution rates must total at least the following:

Current Cost (the cost of members' service being rendered this year) . . .

plus. . .

Interest on Unfunded Accrued Liability (UAL is the difference between (i) liabilities for service already rendered and (ii) the assets of the plan).

Computing Contributions to Support System Benefits. From a given schedule of benefits and from the employee data and asset data furnished, the actuary determines the contribution rates to support the benefits, by means of an actuarial valuation and a funding method.

An actuarial valuation has a number of ingredients such as: the rate of investment return which plan assets will earn; rates of withdrawal of active members who leave covered employment; rates of mortality; rates of disability; rates of pay increases; and the assumed age or ages at actual retirement. In an actuarial valuation, assumptions must be made as to what the above rates will be, for the next year and for decades in the future. Only the subsequent actual experience of the plan can indicate the degree of accuracy of the assumptions.

Reconciling Differences Between Assumed Experience and Actual Experience. Once actual experience has occurred and been observed, it will not coincide exactly with assumed experience, regardless of the wisdom behind the various financial assumptions or the skill of the actuary and the millions of calculations made. The future can be predicted with considerable but not complete precision, except for inflation which defies reliable prediction.

The System copes with these continually changing differences by having actuarial valuations. Each actuarial valuation is a complete recalculation of assumed future experience, taking into account all past differences between assumed and actual experience. The result is continual adjustments in the computed contribution rates.

Financial Principles and Operational Techniques

THE ACTUARIAL VALUATION PROCESS

The financing diagram on the following page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is an increasing contribution method; and the level contribution method which equalizes contributions between the generations.

The actuarial valuation is the mathematical process by which the level contribution rate is determined. The flow of activity constituting the valuation may be summarized as follows:

A. Covered people data, furnished by staff, including:

Retired members now receiving benefits

Former employees with vested benefits not yet payable

Active employees

B. + Asset data (cash & investments), furnished by staff

C. + Assumptions concerning future experience in various risk areas, which are established by the Board after consulting with the actuary

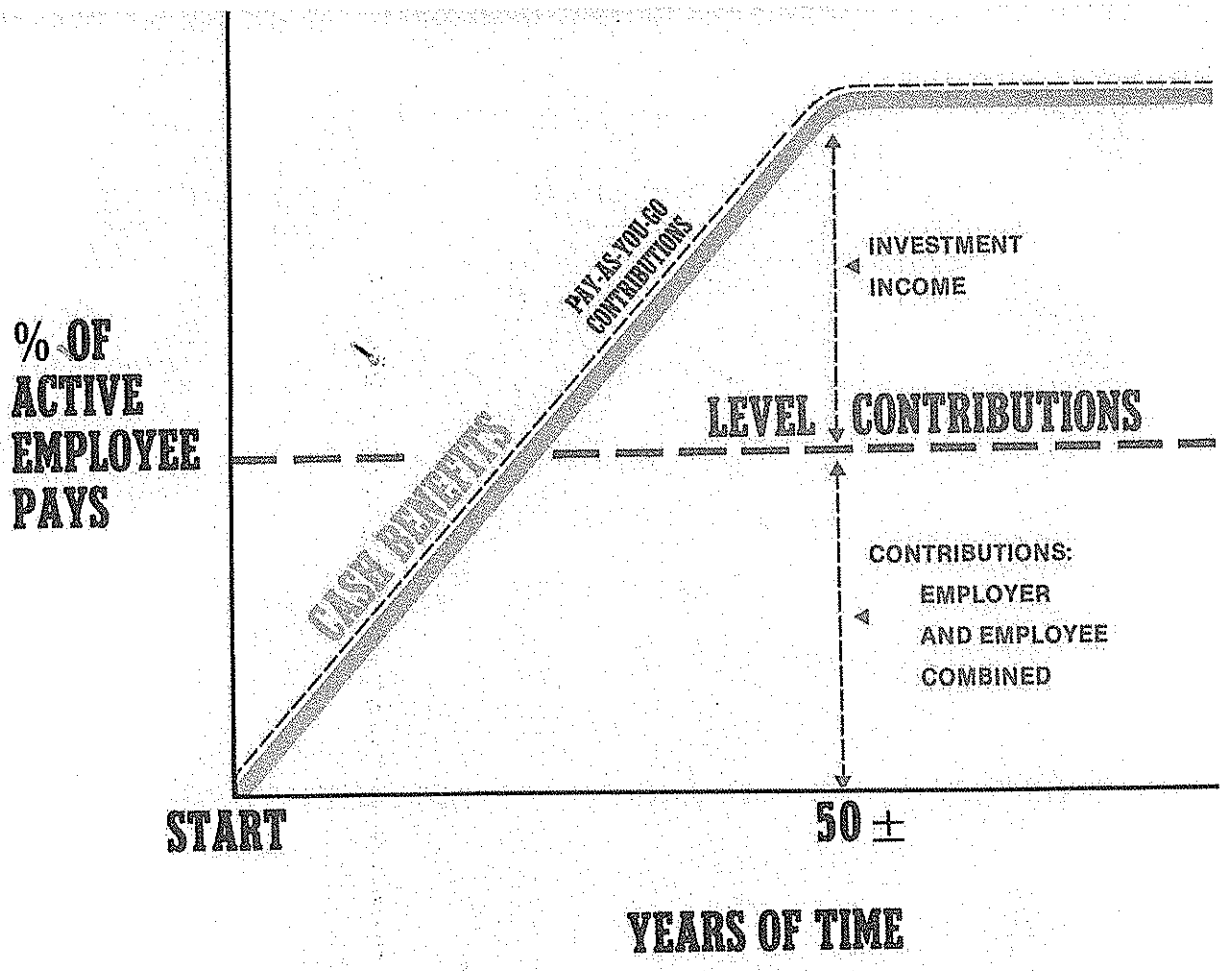
D. + The funding method for employer contributions (the long-term, planned pattern for employer contributions)

E. + Mathematically combining the assumptions, the funding method, and the data

F. = Determination of:

Plan Financial Position and/or

Employer's New Contribution Rate



CASH BENEFITS LINE. **This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).**

LEVEL CONTRIBUTION LINE. **Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:**

- **Economic Risk Areas**
  - **Rates of investment return**
  - **Rates of pay increase**
  - **Changes in active member group size**
- **Non-Economic Risk Areas**
  - **Ages at actual retirement**
  - **Rates of mortality**
  - **Rates of withdrawal of active members (turnover)**
  - **Rates of disability**

SECTION J
DEFINITIONS OF TECHNICAL TERMS

DEFINITIONS OF TECHNICAL TERMS

Actuarial Accrued Liability. The difference between the actuarial present value of system benefits and the actuarial value of future normal costs. Also referred to as "accrued liability" or "actuarial liability".

Actuarial Assumptions. Estimates of future experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Accrued Service. Service credited under the system which was rendered before the date of the actuarial valuation.

Actuarial Equivalent. A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

Actuarial Cost Method. A procedure for allocating the dollar amount of the actuarial present value of retirement system benefits between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

Actuarial Gain (Loss). The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

Actuarial Present Value. The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

Amortization. Paying off an interest-discounted amount with periodic payments of interest and principal -- as opposed to paying off with lump sum payment.

Normal Cost. The actuarial present value of retirement system benefits allocated to the current year by the actuarial cost method.

DEFINITIONS OF TECHNICAL TERMS

Unfunded Actuarial Accrued Liability. The difference between actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded actuarial liability" or "unfunded accrued liability".